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*Letter*

**DECISION**



**THE COMPTROLLER GENERAL  
OF THE UNITED STATES**  
WASHINGTON, D.C. 20548

FILE: B-204178

DATE: February 5, 1982

MATTER OF: Crown Laundry & Dry Cleaners, Inc.

**DIGEST:**

1. Solicitation called for bids on two methods of contracting out work being performed in-house by Government personnel. While solicitation explicitly provided for a cost comparison of the cost of performance in-house with cost of contracting out, solicitation was silent on exact method of making award between the low bidder on each of the two methods of contracting out. However, GAO finds that solicitation implied that cost principles in OMB Circular A-76 Cost Comparison Handbook would be used in the evaluation and that the two low bidders understood that such principles would be used.
2. Protest against inclusion of two cost elements from OMB Circular A-76 Cost Comparison Handbook in evaluation of bids is denied where protester has not shown that their inclusion was unreasonable or that the amounts represented under those elements were inaccurate.

Crown Laundry & Dry Cleaners, Inc. (Crown), protests the cost comparison procedures used in evaluating the bids on invitation for bids (IFB) No. DABT10-81-B-0009 issued by the Procurement Division, United States Army Infantry Training Center (Army), Fort Benning, Georgia. The solicitation was for laundry and drycleaning services at Fort Benning. Bids were solicited for both Government-owned, contractor-operated (GOCO) facility using existing equipment and facilities at Fort Benning and a contractor-owned, contractor-operated (COCO) facility using the contractor's own equipment and facilities.

The IFB, issued on March 11, 1981, advised bidders that it was part of a cost comparison to determine whether accomplishing the work in-house using Government employees or by contract would be more economical.

Crown contends that the standby costs charged to Crown's COCO bid were erroneously calculated and contrary to the Office of Management and Budget (OMB) Circular A-76 and the Cost Comparison Handbook, Supplement No. 1 to OMB Circular A-76, and the cost of capital charged to Crown's COCO bid was erroneous and excessive.

We deny the protest.

Four bids were received. Crown was the only GOCO bidder which also submitted a COCO bid. Apex International Management Services, Inc. (Apex), submitted the lowest of the four GOCO bids. The bids were entered on a cost comparison form to determine the most economical method of obtaining the required laundry and drycleaning services. After evaluation pursuant to the Cost Comparison Handbook, Apex was found to have the most economical method of performance followed by Crown's COCO bid. A total of \$6,869.25 separated the two evaluated bids.

By letter of June 18, 1981, Crown made an administrative appeal of the cost comparison to the contracting officer. Pursuant to paragraph 11 of OMB Circular A-76, Crown's appeal was provided to a cost comparison appeals review board. By letter dated July 10, 1981, the review board denied Crown's appeal and on July 21, 1981, Crown protested here.

Crown contends that the procurement officials considered \$245,480 in standby costs which were erroneously computed and used in the evaluation without any detailed justification as required by the Cost Comparison Handbook. Crown points out that the Cost Comparison Handbook specifically requires a detailed justification for holding Government property in standby status. The justification should be included in the documentation supporting the cost analysis. Crown argues that the only basis Army procuring officials gave for including standby costs was Army Regulation (AR) 210-130, Laundry/Dry Cleaning Operations (March 2, 1979). In Crown's opinion, reliance upon an existing Army regulation cannot constitute the detailed justification. Therefore, Crown contends, in the absence

of any detailed justification, the procuring officials improperly included standby costs in the cost comparison.

The Army takes the position that the detailed justification for maintaining its laundry facilities in standby status is AR 210-130 because paragraph "1-3c(4)" of AR 210-130 specifically provides that existing Army base laundry facilities in which operations are discontinued in favor of commercial service are to be maintained on a standby basis unless otherwise directed by Headquarters, Department of the Army. The Army goes on to point out that paragraph "1-3c(4)" was added to AR 210-130 in March 1979, the same month that OMB's Cost Comparison Handbook was issued. The change to the AR was made to address the situation that the Army would face in the event a COCO contract was awarded and, as such, the Army states that the changes constitute its position on the matter.

Regarding cost of capital, Crown asserts that the procurement officials improperly included an amount for cost of capital for both in-house and contracting out in the cost comparison. According to Crown, a cost of capital figure is required only for a cost comparison with a GOCO bid because the Government plant and facilities necessary for the work will be utilized by that type of contractor. In Crown's opinion, no such cost of capital exists when the Government facility is not used by the COCO contractor. Crown argues that only the capital actually utilized by the COCO contractor in performing the bid should be considered.

Crown also asserts that the procedures followed in this procurement were contrary to the procedures followed by other Army installations in other procurements. Crown argues that the proper procedure as authorized by the Cost Comparison Handbook is for the Government to use the figure for the cost of capital for in-house performance and a much smaller figure, in Crown's opinion, for the cost of actual capital utilized for contracting out to a COCO operation. Crown cites cost comparisons in procurements at Fort Riley, Kansas, and Fort Campbell, Kentucky, as examples where allegedly proper procedures were utilized in computing these costs of capital figures.

The Army responds that the Cost Comparison Handbook provides that the cost of capital for assets retained by the Government to assure performance in case of significant contract interruption or delay will be used for both in-house and contracting out cost comparisons.

Paragraph 1c of section "M" of the IFB provided that a single contract would be awarded to the responsible bidder submitting the lowest responsive bid for either a GOCO or a COCO operation. The IFB does not, however, explicitly state that the cost comparison principles set forth in the Cost Comparison Handbook would be used in determining the lowest responsive bidder. Nevertheless, we think that such a method was implied from the terms of the IFB since paragraph 31 of section "L," Notice of Cost Comparison, stated that a cost comparison would be made "as indicated on the cost comparison form." Moreover, the record indicates that Crown and Apex understood that the Cost Comparison Handbook principles would be used in the evaluation of their bids. Consequently, we conclude that Crown and Apex were competing on an equal basis for award.

Furthermore, the advertising statute governing this procurement requires that award be made "to the responsible bidder, whose bid conforms to the invitation and will be most advantageous to the United States, price and other factors considered." 10 U.S.C. § 2305(c) (1976). This language requires award on the basis of the most favorable cost to the Government. See Square Deal Trucking Co., Inc., B-183695, October 2, 1975, 75-2 CPD 206. Inasmuch as different costs would accrue to the Government depending on which contract method was used in performance, an award which did not take into account these differing cost considerations would not reflect the actual needs of the Government.

Turning to Crown's contention that standby cost should not have been included in the evaluation of its bid, section "F," chapter IV, of the Cost Comparison Handbook provides in pertinent part as follows:

"1. In unusual and infrequent instances, it may be necessary to hold Government equipment and/or

facilities in a standby status when an in-house activity is terminated in favor of contract performance to assure provision of the needed product or service \* \* \*

"2. \* \* \* A detailed justification is required for holding the Government property in standby status, and a copy of the justification should be included in documentation supporting the cost analysis."

Paragraph "1-3c(4)" of AR 210-130 states that existing "Army facilities in which operations are discontinued in favor of commercial service will be maintained on a standby basis unless otherwise directed by Headquarters, Department of the Army."

In our opinion, the inclusion of standby costs in evaluating Crown's bid was reasonable. Paragraph "1-3c(4)" is the Department of the Army's policy determination that in the area of laundry and drycleaning, the Army installation's plant and facilities will be kept in a standby status in order to insure adequate laundry service in the event of interruption or delay in the performance of the contractor's contract. In this regard, the Army points out that laundry and drycleaning services at major Army installations require extensive facilities and that until recently most Army installations fulfilled their laundry and drycleaning needs in-house with Government personnel.

We also note that Crown alleges that in cost comparison studies at Fort Knox, Kentucky; Fort Riley, Kansas; Fort Lewis, Washington; and Fort Campbell, Kentucky, for COCO contracts, standby costs were either not included or were minimal. However, the Army states that there were no standby costs in these cost comparisons because only GOCO bids were received. The Army emphasizes that the cost comparison studies alluded to by Crown can only show that no standby costs were entered on the appropriate forms and not that such costs would have been excluded had there been any COCO bids.

As to the contention that the standby costs were erroneously computed, Crown asserts that the Government total of \$245,480 for the contract period is more than the Government's figure for the actual use of the Government facilities by a GOCO contractor. In our view, the mere fact that standby costs are more than the costs of a GOCO contractor using the Government's plant and facility does not in itself indicate an error in the computation. Paragraph "F.3," chapter IV, of the Cost Comparison Handbook provides that where it is determined that Government property should be held in a standby status, all related costs must be estimated for inclusion in the cost comparison analysis. Further, paragraph "F.3" shows that the key elements in standby costs are depreciation of the Government's equipment and the labor expense incurred in standby status. With regard to depreciation, the record shows that the useful life of the equipment is not increased through standby maintenance. Consequently, the depreciation figure for GOCO use of the equipment is the same as the depreciation figure for the equipment being in standby status.

Finally, with respect to the inclusion of a cost of capital figure in the evaluation of Crown's bid, paragraph "D.1," chapter "V," of the Cost Comparison Handbook states that the cost of capital is defined as an imputed charge on the Government's investment in all of its plant facilities and other assets necessary for the work center to manufacture products or to provide services. In entering this cost on the cost comparison form, paragraph "D.2c" provides as follows:

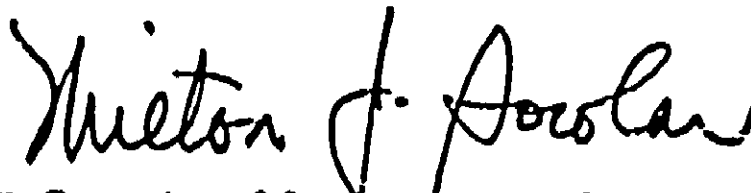
"The cost of capital for assets that will be used only for in-house performance but which must be retained by the Government to assure performance in the event of significant contract interruption or delay will also be entered on both lines 18 [in-house] and 23 [contract out] for each year in the period of performance."

We think that an inclusion of a cost of capital figure in evaluating Crown's COCO bid and Apex's COCO bid was reasonable. Paragraph "D.2" of chapter "V" of the Cost Comparison Handbook shows that the charge for the cost of capital is an opportunity cost. If the Government's capital had not been devoted to performance

use during the contract period, it could have been devoted to another use which would have provided other income or avoided interest expenses.

Also, the Army states that the cost of capital figures used in the cost comparison were computed in compliance with the Cost Comparison Handbook procedures and we have no basis to question the accuracy of the computation itself. We do note that the record shows that the calculations were verified by the Army Audit Agency--an Army activity separate from the procuring activity. See ACMAT Corporation, B-197589, March 18, 1981, 81-1 CPD 206.

We deny Crown's protest. However, we recommend that in future solicitations of this nature where the bidders may not otherwise be aware how their various bids will be evaluated, the Army explicitly set forth in the solicitation the exact method that will be used to determine the low bidder between the GOCO and COCO bids.



Acting Comptroller General  
of the United States